1976 ANNUAL REPORT

SINCE THE YEAR '01

Walgreens at 75

YOUNGER, STRONGER, BOLDER, BETTER


BEAUTY CENTER

the walgreen company

Founded in 1901, Walgreens is now in the fourth quarter of its first century. One of the nation's major retailing and restaurant systems, the Company daily serves more than a million customers in 32 states and Puerto Rico, and generates sales in excess of a billion dollars a year.

Through its 75-year history, Walgreens has based its growth on the constant quality of its service to consumers, the capability of its people, the forward thrust of its leadership.

Walgreen employees number over 29 thousand, Walgreen shareowners more than 19 thousand. The Company has paid dividends to shareowners for 175 consecutive quarters from 1933 to date.

The basic activities of Walgreen Co. are:

RETAILING: A diversified merchandiser of a broad line of consumer products, operating in 32 states and Puerto Rico, the Company's principal retail units are 632 *Walgreen Drug Stores,* and a regional (southwest) chain of 28 *Globe Department Stores*. Prescription pharmacies are integral to these operations. *See pages 20, 21, 22, 23*

FOOD SERVICE: 333 restaurants—277 in or adjacent to Walgreen stores, 27 in Globe stores, 29 independently located. *See page 23*

WALGREEN AGENCY DRUG STORES: Nearly 1800 privately-owned, company-associated stores authorized to use the Walgreen name, sell Walgreen Laboratory products. *See page 25*

MANUFACTURING: Chicago and Kalamazoo, Mich., laboratories produce over 500 health, beauty, household products. *See page 24*

TRAVEL AGENCY: A Chicago-headquartered group tour specialist, *International Travel Service* was acquired in 1971. *See page 25*

PHOTO PROCESSING: Chicago, Houston, Denver Studios serve over 85% of Walgreen and all Globe stores. *See page 24*

AUXILIARY OPERATIONS: Physical distribution centers, plastic container manufacturing plant, sign shop, printing facilities.

SANBORNS OF MEXICO: Company has substantial interest in this Mexican retailer-restaurateur-manufacturer-wholesaler. 19 retail units in Mexico City, Acapulco, Puebla, Monterrey. *See page 25*

SCHNUCKS-WALGREENS: An equal partnership formed in 1976 to operate combination supermarket-drug stores. *See page 7*

the walgreen leadership

DIRECTORS

Year of Election to Board:

CECIL R. CAMPBELL 1957
Former Financial Vice President and Treasurer

WALTER E. COHEN 1973
Former Vice President and Director of Payless Drug Stores of New Mexico (acquired 1967)

CHARLES D. HUNTER 1974
Senior Vice President

JOHN E. JEUCK 1969
Robert Law Professor of Business Administration, Graduate School of Business, University of Chicago

MIRREL R. KEPHART 1971
Senior Vice President

JAMES MITCHELL 1969
Managing Director, Sanborns of Mexico

ARTHUR C. NIELSEN, JR. 1969
President of A. C. Nielsen Co.

SOL S. RAAB 1958
Former Store Operations Vice President

ROBERT L. SCHMITT 1966
President

CHARLES R. WALGREEN III 1963
Chairman

CHARLES R. WALGREEN, JR. 1934
Former Chairman of the Board

OFFICERS

Chairman:

C. R. WALGREEN III
Chief Executive Officer

President:

ROBERT L. SCHMITT
Chief Operating Officer

Senior Vice Presidents:

FRED F. CANNING
Drug Store Division

CHARLES D. HUNTER
Administration

MIRREL R. KEPHART
Manufacturing, Wholesaling, Walgreen Agency Division

Vice Presidents:

C. CLAYTON BURKSTRAND
Globe Division

JAMES A. DAVLIN
Treasurer

H. RICHARD DREWS
Human Resources

CHARLES O. ELSON
Purchasing

JOHN E. KLOCKE
Drug Store Operations

NORMAN B. KRONE
Physical Resources

JOHN B. SEASTONE
Food Services Division

Secretary:

THOMAS P. JOYCE

General Auditor:

JOSEPH M. LAY

Assistant Secretaries:

EMILY KOULOGEORGE
JOEL H. LEVIN
AARON N. LIBMAN
JULIAN A. OETTINGER

Controller:

L. ALAN CROTTY

Assistant Controllers:

JOHN F. RICHTER
RAYMOND W. WIRSING

Assistant Treasurers:

COLETTE HANNAN
N. EDWARD NILSSON

the walgreen year A REVIEW BY QUARTERS

SUMMARY OF QUARTERLY RESULTS, FISCAL 1976-1975

3 MONTHS THROUGH:	SALES (thousands) 1976	SALES (thousands) 1975	NET EARNINGS (thousands) 1976	NET EARNINGS (thousands) 1975	NET EARNINGS per share* 1976	NET EARNINGS per share* 1975
Nov.	$ 269,621	$ 246,767	$ 788	$1,321	$ .12	$ .20
Feb.	327,590	293,836	6,131	4,540	.92	.69
May	285,894	266,120	1,962	1,114	.30	.17
Aug.	286,675	272,421	5,904	2,874	.89	.43
Fiscal Year	$1,169,780	$1,079,144	$14,785	$9,849	$2.23	$1.49

* Assuming no dilution

Fiscal 1976 fourth quarter was affected by favorable physical inventory adjustments resulting from increases in gross profit rates in the fourth and prior quarters which, net of other year-end adjustments, increased net income for the quarter by approximately $1,043,000 or $.16 per share. Also, net income in the quarter was affected significantly by the year-end adjustment for LIFO inventories which can be finally determined only at fiscal year-end when inflation rates and inventory levels are finalized (see Inventories on page 16).

DIVIDEND AND MARKET HISTORY, FISCAL 1976-1975

3 MONTHS THROUGH:	DIVIDENDS PAID per share 1976	DIVIDENDS PAID per share 1975	COMMON STOCK PRICES Fiscal 1976 High	Fiscal 1976 Low	Fiscal 1975 High	Fiscal 1975 Low
Nov.	$ .25	$ .25	13⅞	11	11⅞	9¾
Feb.	.25	.25	15¼	11½	12⅞	9⅜
May	.25	.25	16½	14	12⅝	11¼
Aug.	.25	.25	16¾	14	13	11½
Fiscal Year	$1.00	$1.00	16¾	11	13	9⅜

THE 176th CONSECUTIVE QUARTERLY DIVIDEND PAYMENT BY WALGREEN CO.—payable December 11, 1976, to Shareowners of record at November 15, 1976—has been increased by vote of the Board of Directors, from 25¢ quarterly per share to 27½¢, for an annual rate of $1.10 per share.

Board of Directors Meeting, April 12, 1976:

C. R. WALGREEN III ELECTED CHAIRMAN,
Chief Executive Officer

R. L. SCHMITT ELECTED PRESIDENT,
Chief Operating Officer

Left: President *Robert L. Schmitt*, Chief Operating Officer, joined company 1948. Store Manager, 1952; District Manager, 1954; Regional Director, 1957; Globe President, 1963; Corp. Vice President, 1964; Executive Vice President, 1975.

(Member, Board of Directors, since 1966)

Chairman *Charles R. Walgreen III*, Chief Executive Officer, joined company 1952. Registered Pharmacist, 1958; Administrative Assistant, 1963; District Manager, 1965; Regional Director, 1967; Vice President, 1968; President, 1969.

(Member, Board of Directors, since 1963)

TO OUR SHAREOWNERS:

November 26, 1976

Your company's 1976 *sales* rose 8.4% as volume reached another new high, $1,169,779,733, compared to 1975's record of $1,079,143,636.

1976 *earnings,* LIFO-adjusted, increased 50.1% to an all-time record of $14,784,657, or $2.23 per share, compared to $9,848,507, or $1.49 per share a year earlier. These LIFO earnings were substantially benefited by the sharply reduced rate of inflation; earnings prior to the LIFO effect registered a much lesser increase.

We are pleased to note that 1976 becomes the first year in which LIFO-measured earnings surpassed our 1973 pre-LIFO record. One point, however, should be made clear: We are working toward another productive year in fiscal 1977, but if inflation is re-ignited, that would again intensify the LIFO impact on profit, and make it extremely difficult to match our 1976 earnings. May we again see government, industry and labor work together to increase our country's control of inflationary forces.

We referred above to LIFO's "impact" on profits; LIFO inevitably gets negative descriptions. However, LIFO accounting to date has served our company well. Its effect of lowering the rate of recorded earnings in the past three years has also substantially reduced income tax liability, and thereby increased cash flow. That cash flow utilized in our business has enabled us to counter rising costs of operation, improve our balance sheet liquidity, and further strengthen our ability to fund dividend payments to our shareowners. LIFO accounting has proved prudent, positive.

Of special interest: In 1976 our net profit ratio increased to 1.3% on the sales dollar, still a very modest, very improvable ratio. We are naturally pleased at the progress, but by no means satisfied. Continued improvement in sales, merchandise mix, and cost control remains a prime company-wide priority in 1977.

Your company's divisional performances are further detailed later in this report, so we will be quite brief here:

Walgreen Drug Stores once again led the company profit advance in 1976 as this division, after a difficult first quarter, showed substantial improvement for the year. The division recorded an 8.2% annual gain in sales and accounted for over 75% of total corporate volume. New stores, fewer in number but well located within established Walgreen markets, turned in above-average initial-year performances. Despite slowed volume at the outset of fiscal 1977, we again anticipate good and growing results for the year from this major company division.

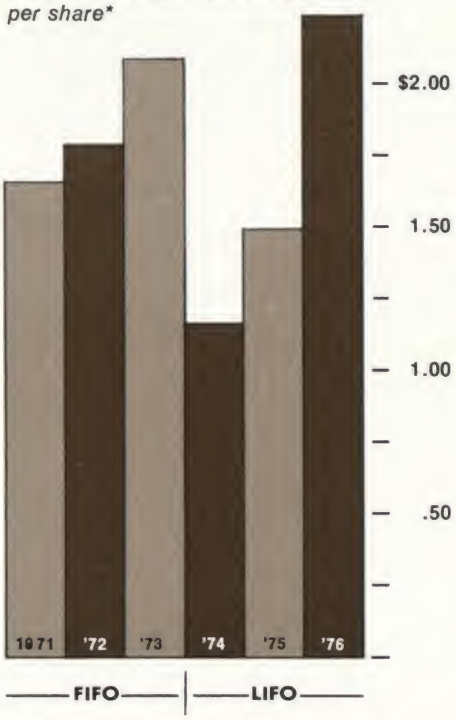
Our *Globe Department Stores,* regaining sales and profit momentum early in the year, made good progress until late spring, when consumer retrenchment occasioned a period of promotional markdowns, particularly in soft goods and appliances. If consumer demand regains strength in the coming months, it should be reflected in further improvement of Globe profitability in fiscal 1977.

Our *Food Service Division,* unlike our drug stores, quickly reflects economic trends, for better or for worse. Heightened general retail business made for substantial gains in our restaurant sales and income early in the year. Food operations in late spring and summer slowed with receding consumer activity; nevertheless, the overall year was improved. Increasing marketing emphasis should contribute to further sales and profit gains in 1977.

In our *Manufacturing Division,* production and sales of Walgreen products approximated 1975's all-time highs, and current factors point to expanding growth. Leading the way are our Kalamazoo, Mich., manufacturing laboratory and our enlarged Plastic Container Plant in Bedford Park, Ill., both now fully operational and showing production gains.

Additionally, our *Walgreen Agency Division,* breaking out of a static period, reported substantial late-summer and fall sales gains to give further impetus to our manufacturing outlook. This renewing demand is good indication of a more positive trend for this national network of privately owned, Walgreen affiliated drug stores. Timely new programs to add more Agency Drug Stores have been intensified.

CORPORATE NET EARNINGS
*per share**



**assuming no dilution*

A word about our investment in *Sanborns,* our Mexican affiliate: Floating of the peso was announced on August 31 and again on October 26. This was a well-kept secret as to timing but devaluation itself was not totally unexpected. The complex economic situation is still settling and the extent of its effect is still not measured. One certainty is Sanborns' exceptional history of productivity and growth. Sanborns weathered a peso-devaluation in 1954, and hardly lost stride. We measure the Sanborns of 1977 as even more capable of re-establishing full momentum. Certainly, too, the history of progress of modern Mexico gives good reason for continued confidence in the economic structure of our good neighbor to the south.

* * * * * * *

The major restructuring of corporate management is now well under way. It is designed to give our profit centers more clearly defined authority and responsibility, more effective utilization of personnel, better channeling of mutual efforts. We have also arrived at a new level of individual managerial strength—from unit managers through district, regional and corporate leadership—both by developing our own people and by adding fresh outside expertise. We are better staffed, better organized to implement company plans.

(Continued next page)

Also of growing benefit to operations is our concentration on research and marketing aspects, from site selection demographics to merchandising to sales analysis by product line. The goal is not simply sales gains, but improving return from every dollar invested through strategic planning and control. Good marketing today calls for early tracking of trends, decisive early buying, merchandising, and advertising action—to produce the more profitable early sales, to keep inventory moving in, moving out. With a strong marketing team aided by broad computer capabilities, we are equipped to do that job.

* * * * * * *

We believe in company growth. It generates new vitality, new opportunity, new success. Our goal is not a headlong, headline growth that makes news, but the orderly, productive growth that makes money.

We therefore intend to concentrate on adding high-potential retail units in markets where we have established leadership, or, to acquire existing units which offer a comparably sound market base and future. Both options shorten the time-gap between investment and return.

Any entry into new businesses will not be speculative, but based on opportunities where our present operational and managerial strengths can apply as direct success factors. (The *Schnucks-Walgreens* enterprise described on the next page is an excellent example.)

* * * * * * *

For the progress we saw in 1976, and the promise we see ahead, we thank the capable men and women of Walgreens. Their work and their will are prime factors in the service we provide to Walgreen customers, and the results we bring to Walgreen shareowners.

C. R. Walgreen

Chairman

President

1977 INITIATIVE:
Launching a progressive enterprise

Cape Girardeau, Mo., November, 1976: The first Schnucks-Walgreens combination supermarket and drug store opened here to mark the start of a new dimension of growth for Walgreen Co.

Early this year, Walgreens formed an equal partnership with *Schnuck Supermarkets* to operate such food store/drug store units. Our starting commitment calls for two more stores in the next 12 months. Longer-range plans, dependent on progress, envision 21 stores within 5 years. Initial penetration will center in the midwest, other than in present Schnuck or Walgreen markets. Store size will approximate 50,000 sq. ft. Investment will be limited, as buildings and most fixtures and equipment will be leased. Administration is guided by a management committee of 3 Walgreen, 3 Schnuck members.

This is a new, separately operating partnership, equally financed by Walgreens and Schnucks, and profits will be equally shared. There is no Walgreen entry into current Schnuck operations, nor does Schnuck participate in corporate operations of Walgreen Co. Schnucks is the foremost food store operator in the St. Louis area, with some 50 units generating a $300 million volume, and is adjudged one of the best operated and fastest-growing in the nation. We have known and neighbored Schnucks for years, and are confident we have joined forces with the best of possible partners.

Together, we generate a synergism that maximizes our combined effectiveness. We pair up traffic-drawing and profit advantages of both operations. We lower costs. We create a self-sufficiency that makes either shopping center or independent locations economically feasible.

Appropriately, the primary beneficiary of our partnership is the consumer, who enjoys new dual convenience, and *two* fine traditions of quality, value, and service . . . *"together to serve you better"*.

SIGN OF A NEW PARTNERSHIP:

Schnucks – Walgreens

TOGETHER --- TO SERVE YOU BETTER

1977 INITIATIVE:
INNOVATING FOR PHARMACY

Pharmacy of the future is becoming present-day fact at Walgreens. The key is our development of the *Intercom* computer system for prescription services. Under test for a number of months in several Chicago pharmacies, the system next expands to our pharmacies in two of our major markets, preliminary to final decision on market-by-market installation.

SIGN OF A NEW CAPABILITY:

intercom

PRESCRIPTION SERVICES

The growing bane of pharmacy today is paperwork. Beyond prescription labels, receipts, and inventory records is a plethora of 3rd party paperwork: Lengthy private insurance plan forms and complex government plan forms. Also in demand, extensive patient profile paperwork, and on the horizon, national health insurance forms. More and more paperwork that will add cost on cost to pharmacy. Or, it can be our opportunity for new volume, new service to customers. Intercom is our vote for the latter. For Intercom automatically *prints the label; provides price and receipt; records inventory levels; banks patient profiles; accumulates billing data for direct transmittal to 3rd party agencies.*

Our benefits: Major reduction of paperwork; inventory economies; instant price updating; 3rd party plan profitability through speed-up of billing for speedier repayment. *Consumer benefits:* Prompter service; patient profiles; income tax and insurance data availability. And soon to follow, *drug interaction* and *drug allergy alerts,* two key health guards welcomed by physicians as well as patients.

That's *Intercom,* a major forward step for Walgreen Pharmacy.

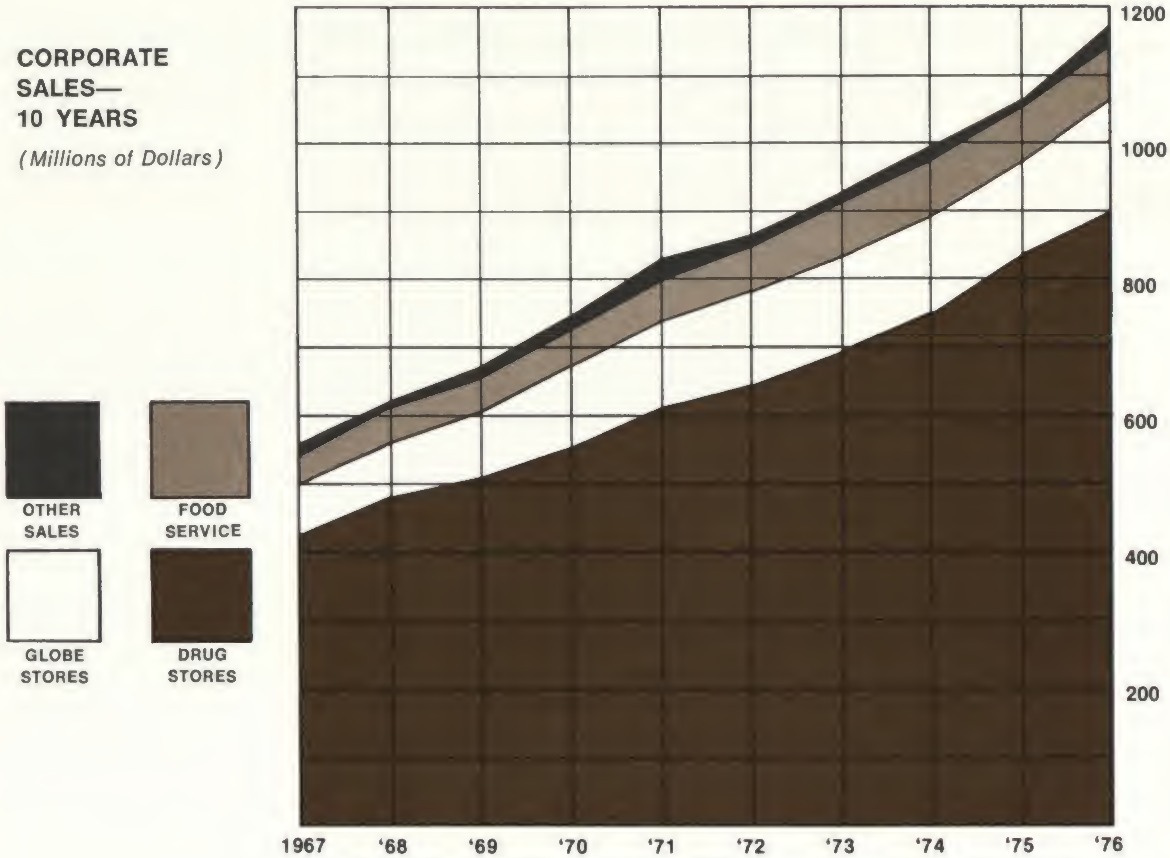
In another area of professional leadership, your company prepared well for the fast-evolving demand for the *generic drugs* which can provide lower costs to consumers and health agencies. Walgreens contracted early with top-ranked sources to assure supply lines of generic pharmaceuticals of optimal quality. Walgreens maintains its own quality-control laboratory to further assay and further assure the purity and potency of the generic drugs we distribute to our pharmacies. Again, an *extra* measure of professional responsibility that adds to the confidence physicians and patients have in Walgreens . . . that adds to the pride our 1500 pharmacists have in Walgreen pharmacy service.

We fill over 30 million prescriptions a year. Dependably. Proudly.

FINANCIAL REPORT

CORPORATE SALES— 10 YEARS

(Millions of Dollars)



Fiscal Year

RETAIL UNIT TOTALS:

	Units Opened 1976	Units Closed 1976	Total Units 8/31	Openings Scheduled for 1977
Walgreen Drug Stores	22	23	632	19
Restaurants, In-Store	6	19	304	2
Restaurants, Separate	10	3	29	7
Globe Dept. Stores	1	—	28	3

5-Year Average

Estimated Corporate **SALES BY PRODUCT CLASSES:**

Product Class	*Percentage:*	**Product Class**	*Percentage:*
Prescription Service	12%	General Merchandise*	35%
Proprietary Drugs*	13%	Liquors, Beverages	12%
Cosmetics, Toiletries*	12%	Tobacco Products*	8%
Food Service	8%		

*Estimates based, in part, on periodic samplings of about 15% of the Company's outlets.

WALGREEN CO.
10-YEAR SUMMARY OF OPERATIONS

(all amounts, other than per share data and unit totals, in thousands)

FISCAL YEAR (1)	1976	1975	1974	1973	1972	1971	1970
NET SALES:							
Drug stores	$ 903,766	$ 835,349	$ 753,687	$ 696,153	$ 646,420	$ 610,212	$ 557,562
Globe stores	155,811	141,555	143,456	141,443	133,653	128,447	112,201
All food units	84,667	79,316	75,542	71,926	66,090	61,495	57,936
Other sales	25,536	22,924	23,931	21,377	17,171	17,333	15,893
Total net sales	$1,169,780	$1,079,144	$ 996,616	$ 930,899	$ 863,334	$ 817,487	$ 743,592
COSTS AND DEDUCTIONS:							
Cost of sales (2)	841,066	792,755	734,372	673,419	626,526	592,787	538,826
Selling, occupancy, administration (3)	298,689	267,169	246,454	229,873	214,125	203,304	185,642
Interest expense, net:							
General company obligations	3,007	3,117	3,466	2,543	2,783	2,779	2,742
Real estate obligations	1,654	1,195	547	393	393	408	423
EARNINGS BEFORE TAXES (2)	$ 25,364	$ 14,908	$ 11,777	$ 24,671	$ 19,507	$ 18,209	$ 15,959
Income taxes	10,579	5,059	4,208	10,943	8,121	7,608	6,557
NET EARNINGS (2)	$ 14,785	$ 9,849	$ 7,569	$ 13,728	$ 11,386	$ 10,601	$ 9,402
NET EARNINGS PER SHARE (2):							
Assuming no dilution	$ 2.23	$ 1.49	$ 1.15	$ 2.11	$ 1.77	$ 1.65	$ 1.48
Assuming full dilution (4)	$ 2.05	$ 1.40	$ 1.11	$ 1.95	$ 1.65	$ 1.59	—
Per share:							
Dividends paid	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Shareowners' equity	$ 19.64	$ 18.42	$ 18.02	$ 17.90	$ 16.78	$ 15.99	$ 15.32
Working capital	$ 111,443	$ 105,090	$ 100,906	$ 100,475	$ 91,723	$ 88,917	$ 86,217
Total assets	$ 310,806	$ 292,496	$ 283,142	$ 262,199	$ 256,325	$ 234,522	$ 215,807
Retail units:							
New openings	33	32	58	36	45	38	54
Major remodelings	21	11	25	18	27	36	34
Closings or replacements	26	18	11	40	38	33	29
Year-end:							
Drug stores	632	633	616	569	572	561	554
Globe stores	28	27	25	25	24	28	27
Separate restaurants	29	22	27	27	29	29	32
Total	689	682	668	621	625	618	613
Sales area—square feet, net	7,277	7,144	6,863	6,441	6,289	6,083	5,727

(1) Fiscal years are 12 months ended August 31 in 1976 and 1975, and 12 months ended September 30 for years prior to 1975.

(2) Earnings in 1974 and thereafter reflect the adoption of LIFO accounting, as inventories were valued on a last-in, first-out basis.

(3) Includes Contribution to Employees' Profit-Sharing Retirement Trust and Other Income.

(4) Assumes conversion of 5½% Convertible Subordinated Debentures issued March 1, 1971.

1969	1968	1967
$ 512,817	$ 479,330	$ 431,881
91,988	79,400	67,948
52,592	49,863	46,544
15,489	14,252	13,052
$ 672,886	$ 622,845	$ 559,425
485,086	453,178	403,957
164,398	147,926	133,418
1,256	732	822
438	451	439
$ 21,708	$ 20,558	$ 20,789
9,595	9,211	8,400
$ 12,113	$ 11,347	$ 12,389
$ 1.91	$ 1.79	$ 1.95
—	—	—
$ 1.00	$ .90	$ .70
$ 14.63	$ 13.73	$ 12.84
$ 76,957	$ 65,296	$ 63,863
$ 195,309	$ 168,212	$ 152,237
53	45	37
38	25	19
17	25	26
546	521	508
22	22	20
20	9	4
588	552	532
5,189	4,806	4,377

See *Inventories*, page 16.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

The 1976 sales increase of 8.4% is the highest since 1971 and compares to a gain of 8.3% in 1975. Late in 1974, a chain of 29 drug stores was purchased from a subsidiary of Eckerd of Erie, Pa. During the three year period 1974-1976, the total of retail units increased by 68 to 689, reflecting 123 openings and 55 closings. The Company changed its fiscal year-end from September 30 to August 31, effective August 31, 1975; therefore, operating results for September 1974 are included in both fiscal 1975 and 1974.

Related to sales, cost of sales was 71.9% in 1976 for a 1.6 percentage point decrease from 1975. Gross margins and net earnings improved considerably due to higher mark-ups and the effect of a sharply lower inflation rate on the Company's LIFO inventory accounting. The rate of inflation in inventories as calculated at year-end was considerably less than anticipated throughout the year; therefore, interim estimates were adjusted in the last quarter. For additional information, see the Statement of Major Accounting Policies for Inventories (page 16) and the Summary of Quarterly Results (page 3).

Selling, occupancy and administration expenses, reflecting various cost pressures, particularly in insurance and utilities, were 25.5% of sales in 1976 compared to 24.8% in 1975. Taxes other than income taxes increased over the prior year by 9.4% in 1976 and 16.4% in 1975, chiefly due to Social Security tax increases. Rent and advertising expense maintained about the same relationships to sales in 1976 and 1975. However, in 1975 rent was up 11.5% and advertising was up 12.0% due to higher volume and inflationary cost pressures.

Net interest expense on general company obligations decreased 3.5% in 1976 following a 10.1% decline in 1975, due to generally lower short-term interest rates and lower levels of borrowings. Interest expense on real estate obligations increased $459,000 in 1976 and $648,000 in 1975, due to long-term financing for expansion of warehouse facilities and purchase of a new corporate headquarters. Income taxes as a percent of pre-tax income were 41.7% in 1976, 33.9% in 1975 and 35.7% in 1974. The change from 1975 to 1976 relates to higher earnings at statutory rates with a decrease in the relationship of investment tax credit to pre-tax income. The change from 1974 to 1975 is primarily due to an increase in the investment tax credit rate from 7% to 10%.

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

For the Twelve-Month Periods Ended August 31, 1976 and 1975
WALGREEN CO. AND SUBSIDIARIES

	1976	1975
EARNINGS		
NET SALES	$1,169,779,733	$1,079,143,636
COSTS AND DEDUCTIONS:		
Cost of sales	841,065,882	792,755,617
Selling, occupancy and administration	298,591,352	267,787,874
Contribution to Employees' Profit-Sharing Retirement Trust	2,926,795	2,601,676
Interest expense, net—		
General company obligations	3,007,003	3,117,322
Real estate obligations	1,653,920	1,194,700
	1,147,244,952	1,067,457,189
OTHER INCOME:		
Equity income from investments	2,043,877	1,886,844
Gains from sale of assets	784,999	1,334,216
	2,828,876	3,221,060
EARNINGS BEFORE INCOME TAXES	25,363,657	14,907,507
INCOME TAXES	10,579,000	5,059,000
NET EARNINGS	$ 14,784,657	$ 9,848,507
NET EARNINGS PER COMMON SHARE:		
Assuming no dilution	$ 2.23	$ 1.49
Assuming full dilution	$ 2.05	$ 1.40

RETAINED EARNINGS

	1976	1975
BALANCE, beginning of year	$ 93,915,994	$ 90,703,883
Net earnings	14,784,657	9,848,507
Cash dividends—$1.00 per share	(6,644,074)	(6,636,396)
BALANCE, end of year	$ 102,056,577	$ 93,915,994

The accompanying statement of major accounting policies and the notes to consolidated financial statements are an integral part of these statements.

consolidated statement of changes in financial position

For the Periods Ended August 31, 1976 and 1975
WALGREEN CO. AND SUBSIDIARIES

	1976 (1)	1975 (2)
SOURCES OF WORKING CAPITAL:		
Provided by operations—		
Net earnings	$ 14,784,657	$ 9,656,288
Add (or deduct) items which do not use (or provide) working capital—		
Depreciation and amortization	8,742,953	7,740,109
Equity income from investments	(2,043,877)	(1,886,844)
Changes in investments in other companies, principally dividends received	882,484	757,595
Deferred income taxes	1,149,000	1,405,000
	23,515,217	17,672,148
Net book value of property and equipment retired	1,994,328	1,377,773
New long-term borrowings	—	15,000,000
Sales of common stock under employee stock purchase plans (2,377 shares in 1976 and 47,563 shares in 1975)	37,813	496,048
	25,547,358	34,545,969
APPLICATIONS OF WORKING CAPITAL:		
Additions to property and equipment	11,788,423	13,646,103
Retirement of long-term debt	266,999	9,625,000
Current maturities of long-term debt	494,951	454,033
Cash dividends	6,644,074	6,636,396
	19,194,447	30,361,532
Increase in working capital	$ 6,352,911	$ 4,184,437
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (decrease) in current assets—		
Cash	$ (2,406,190)	$ 12,300,599
Marketable securities	12,478,877	—
Accounts receivable	(4,929,415)	(6,348,606)
Inventories	11,407,098	(3,032,779)
Other current assets	(453,470)	777,232
(Increase) decrease in current liabilities—		
Current maturities of long-term debt and notes payable	(570)	13,570,122
Trade accounts payable	(1,063,327)	(5,490,019)
Dividends payable	(594)	(1,660,746)
Accrued expenses and other liabilities	(4,694,931)	(3,502,100)
Income taxes	(3,984,567)	(2,429,266)
Increase in working capital	$ 6,352,911	$ 4,184,437

(1) For 12 months ended August 31, 1976. (2) For 11 months ended August 31, 1975. The Company changed its fiscal year-end from September 30 to August 31, effective August 31, 1975.

The accompanying statement of major accounting policies and the notes to consolidated financial statements are an integral part of this statement.

consolidated balance sheet

WALGREEN CO. AND SUBSIDIARIES

ASSETS

	August 31, 1976	August 31, 1975
CURRENT ASSETS:		
Cash	$ 14,421,114	$ 16,827,304
Marketable securities, at cost which approximates market	12,478,877	—
Accounts receivable, less allowances of $2,857,000 in 1976 and $2,581,000 in 1975 for doubtful accounts	16,355,538	21,284,953
Inventories	166,129,116	154,722,018
Other current assets	3,346,422	3,799,892
TOTAL CURRENT ASSETS	212,731,067	196,634,167
INVESTMENTS IN OTHER COMPANIES:		
Stated at equity in underlying book values	7,969,290	6,815,804
Stated at cost (market values or equity in underlying book values—$3,292,000 in 1976 and $3,511,000 in 1975)	332,188	324,281
	8,301,478	7,140,085
PROPERTY AND EQUIPMENT, at cost:		
Land and land improvements	6,596,772	6,737,353
Buildings including improvements to leased properties	33,208,896	31,583,728
Equipment	115,360,657	110,045,811
	155,166,325	148,366,892
Less—Accumulated depreciation and amortization	65,393,302	59,645,011
	89,773,023	88,721,881
	$310,805,568	$292,496,133

LIABILITIES

	August 31, 1976	August 31, 1975
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 494,951	$ 494,381
Trade accounts payable	55,616,000	54,552,673
Dividends payable	1,661,340	1,660,746
Accrued expenses and other liabilities	35,486,401	30,791,470
Income taxes	8,029,502	4,044,935
TOTAL CURRENT LIABILITIES	101,288,194	91,544,205
LONG-TERM DEBT, less current maturities:		
General company obligations	45,000,000	45,000,000
Real estate obligations	20,881,667	21,643,617
	65,881,667	66,643,617
DEFERRED INCOME TAXES	13,105,000	11,956,000
SHAREOWNERS' EQUITY:		
Common stock, $2.50 par value; authorized 10,000,000 shares; issued and outstanding 6,645,362 in 1976 and 6,642,985 in 1975, at stated value	28,474,130	28,436,317
Retained earnings	102,056,577	93,915,994
	130,530,707	122,352,311
	$310,805,568	$292,496,133

The accompanying statement of major accounting policies and the notes to consolidated financial statements are an integral part of this statement.

STATEMENT OF MAJOR ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION:

The consolidated statements include the accounts of the Company and all subsidiaries. All significant intercompany transactions have been eliminated.

The Company owns minority interests in the voting stock of several companies. Investments representing 20% or more of such stock are carried at equity in their underlying book values. Provision is made for all income taxes which would be due if the undistributed earnings of these companies were remitted. The principal portion of such investments consists of the Company's 44.5% ownership of Sanborn Hermanos, S.A. On August 31, 1976, the Mexican government floated the peso, which resulted in a devaluation. The effect of this action on the Company's investments in Mexican affiliates was not material.

INVENTORIES:

Substantially all inventories are valued on a last-in, first-out (LIFO) cost basis. At August 31, 1976 and 1975, inventories would have been greater by $26,779,000 and $23,319,000, respectively, if they had been valued on a lower of first-in, first-out (FIFO) cost or market basis. Inventory values at the end of each interim fiscal quarter would have been greater by the following amounts (in thousands):

Quarter Ended	(Unaudited) 1976	1975
November	$25,469	$15,090
February	27,239	17,994
May	28,694	20,626

At August 31, 1976 and 1975, the Company experienced lower inventory levels in certain LIFO pools compared with the previous year-end inventory levels, which caused a liquidation of LIFO inventories which were carried at lower costs prevailing in prior years. The effect of this liquidation was to reduce cost of sales by $2,449,000 and $1,500,000 and increase net income by $1,228,000 ($.18 per share) and $688,000 ($.10 per share) in 1976 and 1975 respectively.

PROPERTY, EQUIPMENT AND DEPRECIATION:

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the estimated physical life of the property or over the term of the lease, whichever is shorter. Major repairs which extend the useful life of an asset are charged to the Property and Equipment accounts. Routine maintenance and repairs are charged against earnings. The composite method of depreciation is used for equipment; therefore, gains and losses on retirements or other disposition of assets are included in earnings only when an entire location is closed or completely remodeled.

DEFERRED INCOME TAXES:

The Company provides Federal and state income taxes on items included in the Consolidated Statement of Earnings regardless of the period when such taxes are payable. Taxes deferred due to the use of accelerated depreciation for income tax purposes and due to the excess of equity income in investments over dividends received are classified as a non-current liability.

INVESTMENT TAX CREDIT:

The Company reflects the investment tax credit as a reduction in Federal income taxes in the year eligible property and equipment purchases are put into service.

PRE-OPENING EXPENSES:

Non-capital expenditures incurred prior to the opening of a new or remodeled store are charged against earnings when they are incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LONG-TERM DEBT:

Long-term debt, less current maturities, consists of:

Issue	Interest Rate	Principal (In Thousands) 1976	1975
GENERAL COMPANY OBLIGATIONS—			
Convertible Subordinated Debentures, due 1991	5½%	$30,000	$30,000
Senior Notes payable to insurance companies, due 1981 through 1990	11%	15,000	15,000
		45,000	45,000
REAL ESTATE OBLIGATIONS—			
Industrial Revenue Bonds	6¼%	4,300	4,300
Mortgage obligations:			
Parent company	9.8%	8,444	8,504
Subsidiary companies	4⅞-8¼%	8,138	8,840
		20,882	21,644
		$65,882	$66,644

The 5½% Convertible Subordinated Debentures are convertible into common shares at the rate of 31 shares per $1,000 principal amount. At August 31, 1976, 930,000 common shares were reserved for such conversions. The debentures are subordinated to all other borrowings of the Company. At the Company's option, the debentures are redeemable at prices ranging from 104.052% in 1976 to par in 1990. Beginning in 1982 sinking fund payments of not less than 10% nor, at the Company's option, more than 20%, of the total principal amount outstanding will be required. The 11% Senior Notes payable to insurance companies, dated August 15, 1975, have required annual principal payments of $1,500,000 from 1981 through 1990.

The 6¼% Industrial Revenue Bonds are payable in installments from 1984 through 1999. The mortgage obligations and Industrial Revenue Bonds are secured by office, store, warehouse, and shopping center properties having a net book value at August 31, 1976, of $19,803,000. While Walgreen Co. is not directly obligated for the mortgages of subsidiary companies, all these mortgages, except for approximately $763,000, are secured by lease agreements between Walgreen Co. and its subsidiary companies or by guarantees of Walgreen Co. All mortgages provide for monthly payments of principal and interest and become fully retired between 1982 and 2000.

Under the most restrictive covenants of the Company's debt agreements (a) $17,560,000 of the consolidated retained earnings at August 31, 1976, is available for payment of cash dividends, or for repurchase of the Company's stock, and (b) consolidated net working capital, as defined, must be at least $89,608,000. Consolidated net working capital, as defined, was $124,867,000 at August 31, 1976.

Annual maturities due on long-term debt for each of the next five years are as follows:

1977	1978	1979	1980	1981
$495,000	$525,000	$558,000	$593,000	$2,130,000

On September 2, 1976, the Company finalized a contract to receive $1,000,000 under an Industrial Revenue Bond Issue to replace the majority of funds used to construct a manufacturing laboratory in Kalamazoo, Michigan. The bonds bear 7.7% interest and are payable in installments from 1981 through 1996.

SHORT-TERM BORROWINGS:

Short-term borrowings outstanding were:

	Commercial Paper 1976	Commercial Paper 1975	Short-Term Bank Notes 1976	Short-Term Bank Notes 1975
Average during the period	$ 2,830,000	$10,628,000	$ —	$ 252,000
Largest month-end balance	21,775,000 (NOV.)	31,905,000 (NOV.)	—	2,000,000 (JUNE)
Weighted average interest rate during the year	5.8%	9.0%	—	6.8%

At August 31, 1976, the Company had approximately $51,000,000 of bank lines of credit. The credit lines are renewable annually at various dates and provide for loans of varying maturities at the prime rate. There are no compensating balance arrangements in connection with these lines of credit.

LEASES:

The Company generally operates in leased premises. Original noncancelable lease terms typically range from ten to twenty years, and normally have options that permit renewals for additional periods. Certain of these leases are considered to be non-capitalized financing leases. Rental expense on all leases, net of sub-lease income of $3,914,000 in 1976, and $3,491,000 in 1975, was as follows:

	(000 omitted)				
	Minimum Rentals (Net of Sub-Lease Income)		Contingent Rentals (Based on Sales)		
Year	Non-Capitalized Financing Leases	Operating Leases	Non-Capitalized Financing Leases	Operating Leases	Total
1976	$7,820	$20,661	$2,095	$4,431	$35,007
1975	6,475	19,891	1,657	4,089	32,112

Minimum rental commitments at August 31, 1976, under noncancelable leases having an original term of more than one year are shown below. These commitments relate primarily to real estate leases and are net of sub-lease income of $23,103,000.

	(000 omitted)		
Year	Non-Capitalized Financing Leases	Operating Leases	Total
1977	$ 8,049	$ 18,922	$ 26,971
1978	7,780	17,669	25,449
1979	7,565	15,962	23,527
1980	6,953	13,849	20,802
1981	6,624	11,208	17,832
1982-1986	29,327	39,349	68,676
1987-1991	26,066	14,254	40,320
1992-1996	16,866	326	17,192
After 1996	4,111	—	4,111
	$113,341	$131,539	$244,880

The present value of net future minimum rentals under non-capitalized financing leases is shown below. Estimated executory expenses of the lessor have been excluded from these amounts. However, the present value of sub-lease income, amounting to $9,612,000 in 1976 and $7,729,000 in 1975, has not been deducted.

	Interest Rates		
As of	Range	Weighted Average	Present Value
August 31, 1976	1.5%-12.0%	6.6%	$50,605,000
August 31, 1975	1.5%-12.0%	6.5%	46,428,000

If the non-capitalized financing leases had been capitalized and amortized on a straight-line basis, and interest expense accrued on the basis of the outstanding lease liability, net earnings would not have been materially affected in 1976 or 1975.

INCOME TAXES:

The provision for income taxes for the twelve month periods ended August 31, 1976 and 1975, consists of the following:

	1976	1975
Currently Payable—		
Federal	$ 8,607,000	$3,218,000
State	823,000	436,000
	9,430,000	3,654,000
Deferred to future periods—		
Federal	971,000	1,312,000
State	178,000	93,000
	1,149,000	1,405,000
	$10,579,000	$5,059,000

The difference between the statutory income tax rate and the effective rate, as related to pre-tax earnings before equity income from investments, is principally due to the investment tax credit of $1,000,000 in 1976 and $1,090,000 in 1975.

EMPLOYEES' PROFIT-SHARING RETIREMENT TRUST:

The Company has a retirement plan for employees known as the Walgreen Profit-Sharing Retirement Trust, to which both the Company and the employees contribute. The Company's contribution, computed by a formula specified by the Trust Agreement, is related to pre-tax income, and is reduced by the Company's payment for Profit-Sharing members' Social Security and Medicare tax that is in excess of 5.2% of annual wages subject to such taxes.

CAPITAL STOCK:

As of August 31, 1976, 218,803 shares of common stock were reserved for issuance under employee stock purchase plans.

There are authorized 1,000,000 shares of a $1 per share par value preferred stock issuable in series. The rights of this preferred stock as to dividends, redemption and liquidation will be determined when, as and if issued.

NET EARNINGS PER COMMON SHARE:

Net earnings per common share, assuming no dilution, were computed using the weighted average number of shares outstanding during each year. Net earnings per common share, assuming full dilution, were computed on the assumption that the 5½% Convertible Subordinated Debentures were converted into 930,000 shares of the Company's common stock as of the beginning of each year, and that the related interest expense, net of its effect upon profit-sharing and income taxes, was eliminated.

LITIGATION:

The Company is involved in various legal proceedings incidental to the normal course of business. Legal counsel and Company management are of the opinion that, although the outcome of such litigation cannot be forecast with certainty, the final disposition should not have a material adverse effect on the consolidated statement of earnings or financial position of the Company.

SUPPLEMENTARY PROFIT AND LOSS INFORMATION:

The consolidated statement of earnings includes the following costs and expenses for the twelve month periods ended:

	August 31, 1976	August 31, 1975
Taxes, other than income	$17,360,000	$15,865,000
Rents	35,007,000	32,112,000
Advertising	17,159,000	16,407,000
Depreciation and amortization	8,743,000	8,424,000

auditors' report

ARTHUR ANDERSEN & CO., CHICAGO, ILLINOIS

To the Board of Directors and
Shareowners of Walgreen Co.:

We have examined the consolidated balance sheet of WALGREEN CO. (an Illinois corporation) AND SUBSIDIARIES as of August 31, 1976 and 1975, and the related consolidated statements of earnings and retained earnings for the twelve-month periods then ended, and the related consolidated statement of changes in financial position for the twelve months ended August 31, 1976, and the eleven months ended August 31, 1975. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Walgreen Co. and Subsidiaries as of August 31, 1976 and 1975, and the results of their operations for the twelve-month periods then ended, and the changes in their financial position for the twelve months ended August 31, 1976, and the eleven months ended August 31, 1975, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Chicago, Illinois,
October 13, 1976.

operations report:

the drug store division

632 Walgreen Drug Stores generated total volume of over $903 million in 1976 . . . 5% of all U.S.A. drug store sales, 10% of all chain drug store sales. We are America's *number one* drug store choice.

Perhaps more significant from a retailing efficiency standpoint, our stores averaged more than $1,400,000 per unit, far above the norm. This Walgreen volume intensity has made us the first choice of shopping center developers, as well. In *Shopping Center World* magazine's latest survey, Walgreens took first place in the drug store category. Comments accompanying our choice included: *"High performance and volume"* . . . *"Household word"* . . . *"Great merchandisers"*.

Company emphasis today is on physical growth and volume growth, of course—but the prime

focus is on maximizing return on investment. Therefore, in 1976 we opened fewer drug stores (22); remodeled more (21); closed more (23).

Management has been decisive about the necessity to phase out marginally productive stores. A trade-off of stores not producing satisfactory return on investment, in favor of high-potential new locations, is unarguably healthy for both near and long-term profitability.

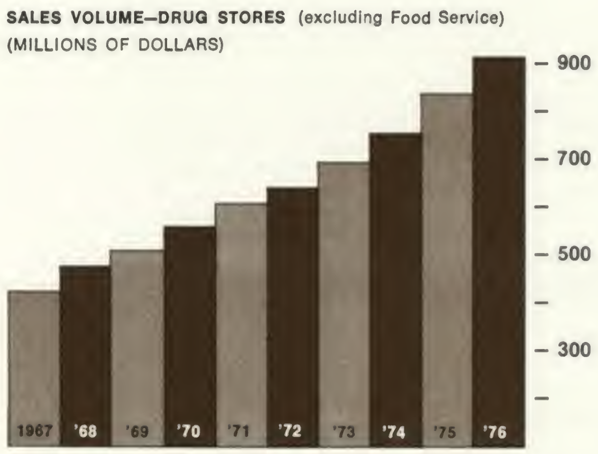
Renovation of highly productive established stores, while an ever-costlier procedure, generates immediate volume response and fortifies our future in the market. 1976's major remodelings involved not only reconditioning, but redesign for updated promotional techniques and new merchandising developments. They are 21 very good investments.

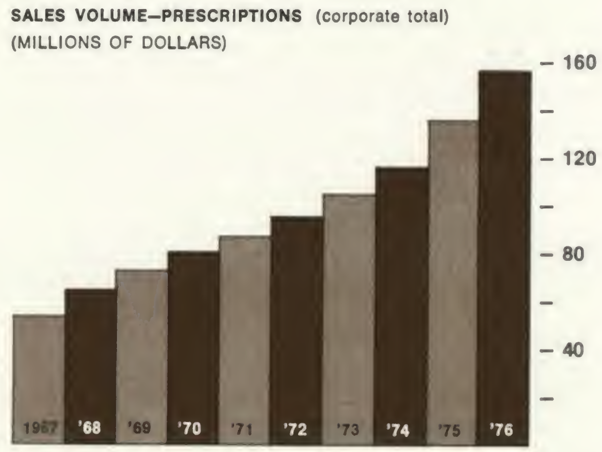
The 22 new stores of 1976 were primarily located in multiple-unit markets where we have established consumer acceptance. That assures predictably earlier profitability through lower introduction costs, lower per-store expenses of advertising, distribution, and supervision. The prime goal, again: return on investment.

Computer-Aided Marketing

Electronic point-of-sale registers in representative stores gives us next-day availability of selected item-by-item, size-by-size sales movement and profit ratios. This growing flow of strategic data is instrumental in recognizing consumer trends, measuring demand, optimizing buying decisions, and focusing promotional efforts precisely where the greatest potential is. We are getting better and better at knowing what we're doing before we do it.

Additionally—and this is a big extra—it is beginning to have a significant effect on distribution efficiency. We are not only maintaining better in-stock conditions in our stores, but also in our warehouses . . . and accomplishing this with reduced inventory levels in both places. The result: Currently, our distribution schedules are improved, expenses are down, and laid-in costs to stores are lower.





New Directions in Advertising

Computer data, combined with expanded consumer research, is also adding new traffic-drawing potential, new profit-control to Walgreen advertising. Again, we're getting better at *knowing* what will sell before we spend the advertising money.

Newspaper advertising with its same-day traffic response remains the mainstay of our promotional activity. Our ads, like our stores, recognize today's need for speed in shopping, so their design is cleaner, quick to read, and advertised items are fewer but better-aimed.

Television and radio are being employed in growing ratio to promote national brand products, and our specialty areas of pharmacy and cosmetics. These media underscore our long-term company image of day-in, day-out quality, service, satisfaction. We're selling merchandise today . . . we're selling *Walgreens* for today and tomorrow.

December . . . the Big Month

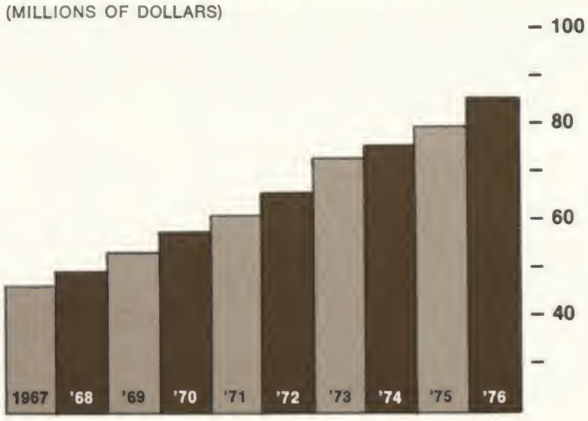
The forecasters have done considerable hedging on the Christmas sales outlook. It means we have intensified our efforts to turn this month's extraordinary potential into extraordinary accomplishment. Our buys are aggressive. Our promotional plans are aggressive. We know the movement we will get on basics—the toys, tree lights, toiletries, stationery, cigars, candies. We think this year offers a good market for high-ticket items—the new video games, cameras, CB equipment, burger-makers, coffee-makers—and we believe we've chosen winners. We expect the growing use of bank credit cards to further spur our holiday sales.

. . . but "first a drug store"

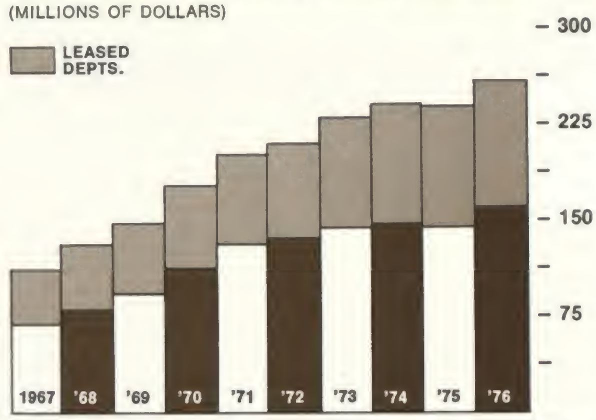
We plan continued emphasis on the basic drug store categories—prescriptions, proprietary drugs, cosmetics, photo-finishing. These are our specialty services to consumers which position the drug store with unique clarity in a generally overlapping marketplace. The constant flow of customer traffic generated by our health and beauty identity creates advantageous exposure for a broad mix of additional merchandise.

Walgreen drug stores have generated increasing volume for 26 consecutive years. We believe the major reason is that—*Every Walgreens is a drug store and more, but first a drug store.*

SALES VOLUME—FOOD SERVICES (corporate total)
(MILLIONS OF DOLLARS)



SALES VOLUME—GLOBE DIVISION (excluding Food Service)
(MILLIONS OF DOLLARS)



"Leased Departments" sales are not included in "Net Sales," Page 12.

the food service division

Our 304 store-connected and 29 free-standing restaurants generated nearly $85 million in volume in 1976. The prime impetus for our drive toward the $100 million volume goal is in our two major operations:

One, our store-connected *Walgreen* restaurants, the consistent, proven performers that are our great strength. Two, our more recently developed *Wags* coffee shops, which adapt equally well to store-connected or independent locations. They provide us entry into high-traffic shopping malls or other attractive free-standing sites.

Costs of leases, utilities, food commodities, and staffing continue to rise. To counter this, and protect our return on investment, emphasis is on streamlining food preparation area, maximizing customer space. Results are showing not only in volume, but in cost control and a consequent gain in margins. Credit for that progress must also go to divisional staff strengthening and to already evident results from our restaurant management training school. Today, as both present and new managers are 'graduating'—at a ten a month rate—we see further improvement in our top units, and we also see a number of smaller units turning into stronger profit-makers.

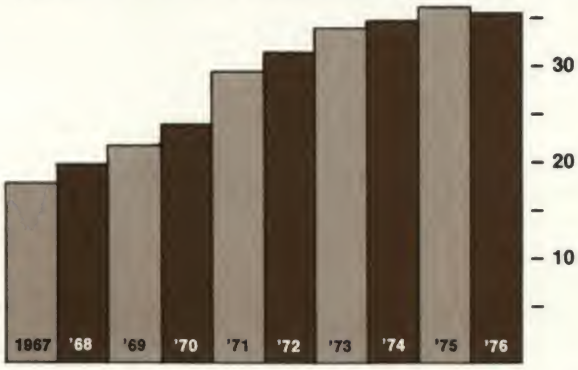
A small but potentially significant 1976 acquisition was our purchase of four *Humpty Dumpty* restaurants in Phoenix, Ariz. They have a unique marketing concept, great family appeal, exceptional breakfast business. In an extremely competitive market, all are performing above year-ago levels.

the globe division

Our 28-unit Globe discount department store chain—in Arizona, Louisiana, New Mexico, Texas—topped the quarter-billion dollar sales level in fiscal '76. 61% of those dollars went into registers of Globe-owned departments, 39% to leased departments. The latter—primarily food market, service station, fine jewelry, and shoes—help generate busy Globe traffic and add to its multi-line customer appeal.

The year's earnings showed improvement, although below expectations, for Globe's early-year sales tempo was later slowed by diminished consumer activity. That receding demand, coupled with early buying commitments made when sales and outlook were on the

SALES VOLUME—LABORATORY PRODUCTS
(MILLIONS OF DOLLARS, at estimated retail)



rise, resulted in an overstocked condition. Mexico's peso devaluation at the start of the new fiscal year added to the problem by dramatically reducing volume in our border stores. Extensive measures have been taken to resolve these difficulties and give us a cleared launching pad for Christmas sales.

In 1975, we decided to discontinue Globe's own credit system in favor of bank credit cards. Our sales show the effect on our volume growth was negligible; our books show that eliminating the credit receivables has converted over $6 million to cash.

Globe currently has a dual merchandising target—to increase accent on fashions and clothing for a better profit mix, and to take direct aim at the youth market. To accomplish it, new versatile fixturing is updating display techniques, adding appeal to the important junior apparel customer.

Globe's goals call for further improvement, and the tools are there: Stronger management. Better operational controls. Addition of electronic registers that report key marketing data. Central planning and control to intensify Globe's chain advantage. It all adds to our total emphasis on increasing Globe's market share, improving Globe's profitability.

THE MANUFACTURING DIVISION

Our company commitment is to *benefit the consumer, better our earnings.* The 500 fine products of our Walgreen laboratories are the very definition of that dual goal. They are the consumer's best buys. They are Walgreens' best sales.

Over 2400 Walgreen, Globe and Agency stores gain the advantages of competitive pricing plus a deeper profit margin. Our customers enjoy significant savings on a wide array of health, beauty, and home needs, plus the confidence that "When *Walgreens* name is on it, *quality* is in it".

Keys to that quality are our research and development specialists who initially insist on finest of formulas and ingredients for every new product . . . and our quality-control chemists who continuously and independently pursue scientific tests to assure that quality.

Within weeks, a new Walgreen Product line will be introduced. At our Kalamazoo, Mich. laboratory, we have installed facilities and technology for sterile manufacture, filling, and packaging of *ophthalmics*—a series of eye-care products and contact lens solutions to be marketed in 1977. It is one of a very few facilities of its type in the country. We see an excellent market opening here, and excellent profitability, as well.

Vitamin volume, a key component of laboratory sales, dropped sharply in 1976, as sales of vitamins C and E plummeted industrywide. This curtailed Walgreen Product volume for the year. With our Kalamazoo facilities and expanded Bedford Park, Ill., plastic container plant now fully operational, our 1977 outlook is for early resumption of forward progress.

Our three *Photo-Processing Studios,* solid contributors to Manufacturing Division sales and profits, expanded their service to 85% of Walgreen and all of Globe units. They also expanded volume by 18% as output reached *65 million* prints. Here again, *quality* means repeat customers, continuing growth.

THE AGENCY DIVISION

Consistently larger merchandise orders are arriving from our nearly 1800 Walgreen Agency Drug Stores. It indicates the extent of the business rebound of these independent merchants across the nation, and it explains the special vitality evident in this division. Walgreen expertise in planning, buying, merchandising and advertising aided these Agents through recession pressures, and is now adding extra strength to their recovery.

The competitive advantages of our exclusive Walgreen brands further aid these progressive merchants to consistently achieve success levels well beyond the norm. Indeed, a number have developed small chains. In turn, they broaden our product distribution by opening new markets for Walgreen brands.

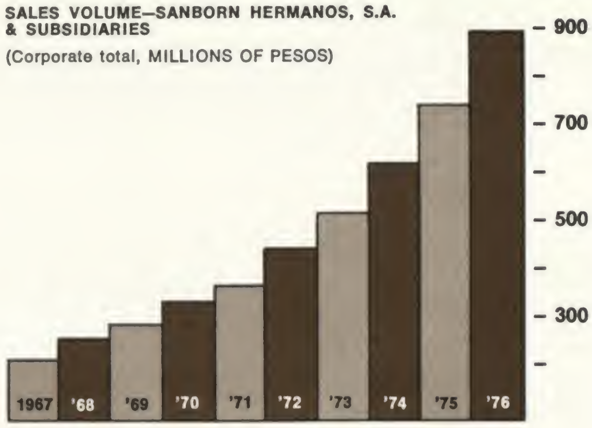
Our increased manufacturing capacity and distribution capabilities are opening the way to expansion of our Agents, to progress for our Agency Division.

INTERNATIONAL TRAVEL SERVICE

A record 45,000 people took to the air and sea under the I.T.S. banner in 1976, generating another volume high for the travel service we acquired in 1971.

Group tours, serving such prominent clients as the *Chicago Council on Foreign Relations* and the *International College of Surgeons,* continue to play an essential role in our travel business. But in 1976 the wholesale division of I.T.S. took over volume leadership, as our "Pleasure Break" vacation charters carried 26,000 people on European jaunts. Optional land arrangements also add important revenue.

Pleasure Break charters are sold through independent travel agents, and the association is mutually beneficial for I.T.S., for the participating agents, and for their clients who travel the "quality route".



SANBORNS OF MEXICO

Our Sanborns affiliate is uniquely positioned in the Mexican retailing scene: It is both prestigious and popular; it is both a magnet for tourists and the proud favorite of Mexicans.

Sanborns fine department stores specialize in gifts, cosmetics, books, and notable collections of Mexican arts and crafts. All 17 include exceptional restaurants, and two separate dining units bring further lustre to its reputation as a leading restaurateur. An added attraction are Sanborns *pastelerias,* celebrated for delectable baked goods. Sanborns is also a leading silversmith, and a manufacturer and wholesaler of candies and cosmetics.

In August, 1976, Sanborns acquired an 80% ownership of 18 *Denny's Restaurants* in five Mexican cities, including 11 locations in Mexico City. These 24-hour coffee shops were purchased for cash, under a franchise agreement, from *Denny's Inc., U.S.A.*

Sanborns growth has been both vigorous and consistent. Now the Denny's acquisition opens a new sphere for profitable expansion. Our company's investment in our Mexican affiliate has always been rewarding, and we have confidence in the future of Sanborns.

YOUNGER, STRONGER, BOLDER, BETTER . . .
THE RIGHT WORDS FOR WALGREENS AT 75 ARE
THE RIGHT WORDS FOR WALGREEN *PEOPLE.*

our people measure our progress

Today's great need is for *professionals* at every level from store and plant staffing to management. It cannot be met by selective hiring alone. It cannot await long apprenticeships. Meeting that challenge is our Employee Development Program, aimed at developing highly able personnel, preparing them for progressive advancement.

Headquarters-produced video tapes on a variety of subjects are circulated for both individual and group training, graphically supplementing manuals and personal instruction. The key to good training is good communication, and video is the great communicator.

Central attention today is on management training. Our *Initial Management Training Program* focuses on management trainees. *Management Update,* administered by District Managers, is a post-grad program for our Store Managers. *Restaurant Management School,* a 30-day session at headquarters and in-restaurant, aims at improving current managers as well as readying managerial aspirants for top responsibility.

The development of our people goes on . . . heightening *capability,* intensifying *involvement,* deepening *pride.*

SHAREOWNERS' INFORMATION

- ANNUAL SHAREOWNERS' MEETING

  You are cordially invited to attend the meeting to be held Wednesday, January 12, 1977, 2:00 p.m., at Walgreen General Offices, 200 Wilmot Road, Deerfield, Illinois. (Formal notice of the meeting, with proxy card and proxy statement, will be mailed to all shareowners of record at November 15, 1976.)

- THE COMPANY FISCAL YEAR

  The Walgreen Co. corporate year (realigned 1975) starts September 1, ends August 31.

- DIVIDEND PAYMENT DATES

  . . . are March, June, September, December, and checks have generally been mailed on approximately the 12th of each of these months.

- DIVIDEND REINVESTMENT PLAN

  An Automatic *Dividend Reinvestment Service* (with cash investment option) for Walgreen Shareowners was inaugurated in 1976. By joining the program you authorize that future dividend payments be sent directly to Citibank, New York, for purchase of additional Walgreen stock in your name. Purchase expenses are minimized. Withdrawal from the plan is optional at any time. For an information booklet and authorization form, please write to: *Treasurer,* Walgreen Co. (address below).

- SHAREOWNERS' COMMUNICATIONS

  Please address any inquiries or comments to *Shareowners' Relations,* Walgreen Co.

- FOR FURTHER FINANCIAL INFORMATION

  The Company's annual report to the Securities & Exchange Commission, *Form 10K,* may be obtained by any shareowner, free of charge, upon your written request to *Shareowners' Relations,* Walgreen Co.

- TRANSFER AGENTS

  The First National Bank of Chicago;
  Morgan Guaranty Trust Company, New York.

- REGISTRARS

  Harris Trust and Savings Bank, Chicago;
  Morgan Guaranty Trust Company, New York.

- STOCK MARKET LISTINGS

  New York Stock Exchange, and Midwest Stock Exchange. *Symbol: WAG*

Walgreen Co.

200 WILMOT ROAD, DEERFIELD, IL 60015
PHONE: (312) 948-5000

his imprint is deep;
it will long
benefit us all.

UPON HIS IMPENDING RETIREMENT FROM THE BOARD OF DIRECTORS,

A MOST FOND AND APPRECIATIVE SALUTE TO CHARLES R. WALGREEN, JR.

Company President: 1939-1963
Chairman of the Board: 1963-1971
Board of Directors: 1934-1977

His association with Walgreen Co.—across more than half a century—has been one of utmost dedication and distinction . . .

His unique abilities helped guide this company's direction and growth through decades of change and challenge . . .

His inspiring leadership brought the company to its acknowledged position as the retail drug industry's standard-bearer . . .

His love for Pharmacy is recorded in notable contributions to the advancement of the profession . . .

His concern for customers, employees, shareowners and business associates earned an invaluable treasury of good will . . .

His principles of fairness and honesty in business permeated this organization to build pride inside, respect outside . . .

Charles R. Walgreen, Jr., we salute you!

A personal word from Mr. Walgreen, Jr.—

"I feel great satisfaction at this time, and it comes not from the past, but from the bright future outlook for our company, our employees, and our shareowners.

I see sure, sound progress ahead, for I know the vigor and integrity of our management, the capability of our people, the confidence of our planners. Walgreen Company is not finished making history.

For these many years of support from shareowners and cooperation of co-workers, I am most grateful. My warm good wishes to you all."

C R Walgreen, Jr.